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The Future of American Business

An Address by

JAMES S. ALEXANDER

President, National Bank of Commerce in New York



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**National Bank of Commerce
in New York**

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This is the fourth annual meeting of the American Bankers Association that has assembled since the close of the Great War. At the time of the first meeting we had entered upon perhaps the most extraordinary and abnormal period of business activity in American history. When the second meeting took place the crisis was already upon us. At the time of the third meeting, namely, that of a year ago, although we believed that we had passed the worst aspects of the depression, there were still many maladjustments to be corrected. Since then some very marked changes have taken place in our domestic business situation and we now have, for the first time since the war, a condition of affairs that gives us some substantial basis for a consideration of what may be called the normal trend of American business in the future.

When I refer to the normal trend of business, however, I do not mean to suggest the precise condition of industry that prevailed before the war. We have many new factors to consider, some of which are favorable and some of which are not. We have a banking system that is much superior to our pre-war system; and we occupy relatively a much more favorable position in the world's capital market. On the other hand, we are to carry on business under a load of taxation that in our prewar days would have appeared unbearable. There are other factors, some of which perhaps have both favorable and unfavorable bearings, such as the existence of our great public debt, the influence of treasury financing upon the money market, the possession of nearly one-half of the world's stock of monetary gold, many new aspects in the relation between labor and capital, and, by no means the least in importance, the removal from the world's market, perhaps for many years to come, of the buying capacity of many millions of people.

These factors must have a very great bearing upon the future of American business, and it may be that not within a considerable number of years will business return to the same relative conditions that prevailed before the war. We shall probably work into an industrial and trade position that may be called our new normal. Whether that new normal will be represented by a volume of business relatively less than our prewar volume (after, of course, allowing for growth of population), or whether it will be represented by the same or indeed by a relatively greater

volume, will, I believe, depend upon whether we shall broaden our outlook commensurately with the size of the great problems and the great opportunities before us.

However that may be, I believe that the facts of the situation although exceedingly complex are now more definitely before us than at any time since the close of the war, and we are in a position to take a long view to the future.

While there are many factors that would have to be weighed in any complete appraisal of the present situation, I must limit myself to a consideration of the three factors that throw most light upon our present outlook. These are:

1. The readjustment that has recently taken place in our domestic financial conditions and in the volume of internal business transactions.

2. The labor situation.

3. The condition of affairs across the water.

Let us look at each of these factors in turn.

Evidences of Improvement

For many months we have been watching every evidence of changing financial and business conditions with great care, and month by month the experts in many branches of industry and finance have been reporting the evidences of improving conditions. The larger facts contained in these reports may be summarized as follows:

From the financial point of view the credit strin-

gency has passed and frozen loans to an important extent have been thawed out. Interbank accommodation among Federal Reserve banks, which stood at 267 millions on October 22, 1920, declined to nil in December, 1921. The amount of Federal Reserve notes has been substantially reduced. From about three and one-third billion dollars in December, 1920, the aggregate amount of notes in actual circulation had been reduced to a little over two billions in the early part of September, 1922, a decrease of 35 per cent. The Federal Reserve ratio is now above 78 per cent., whereas in May, 1920, it was below 43 per cent.

For more than a year and a half up to quite recently, interest rates were declining. From the abnormal interest rates prevailing for some time after the culmination of the crisis, rates fell until they attained comparatively low levels. The renewal rates for call loans, which ranged from 6 to 10 per cent. less than two years ago, have ranged within the last few months from $2\frac{3}{4}$ to 5 per cent. At the former date, also, sixty day time loans were made at 7 to 8 per cent. as compared with $3\frac{3}{4}$ to $4\frac{1}{4}$ during August, 1922.

In the security market there has been a more or less steady rise in the prices of stocks and bonds since June, 1921, movements which have been accompanied by a large increase in the volume of trading. In one list of 40 bonds, the price advance has been about 25 per cent., and in a list of 40 stocks, the price advance has been about 50 per cent.

In the field of commodity prices the general level

of wholesale prices, while still uncertain, has become decidedly less unstable and the maladjustments existent at the culmination of the price rise in May, 1920, and at the end of the price decline in May, 1921, have now been in important part corrected. Of importance in this connection is the situation with regard to the prices of farm products. Although the price of wheat and some other agricultural prices are lower than a year ago, the price level with regard to agricultural products as a whole shows a substantial improvement, as compared with a year ago. An especially noteworthy improvement is seen in the prices of metals.

Growth in Volume of Business

With regard to the general volume of business, although the coal and rail strikes have tended to reduce car-loadings, there has been reported a gain in the loadings of merchandise and miscellaneous freight, and in the total car loadings, over the corresponding period of a year ago. Employment has increased, and, in isolated lines, there has been reported an actual shortage of experienced men. The indices for the general volume of business indicate a rise from 25 per cent. below normal in July, 1921, to about 10 per cent. below normal in July, 1922. This growth in the volume of business has also been reflected in an increased volume of bank clearings during the first six months of this year.

In special industries particular activity has been noted. In steel, the output of ingots increased

markedly during the first six months of this year, and the unfilled orders of the United States Steel Corporation, at the end of August, amounted to nearly six million tons as compared to about four million tons in February, 1922, the low point. Railway net earnings have shown some increases, especially during the first half of this year; and improved earnings have been noted in numerous industrial lines. Throughout this same period, the automobile industry has enjoyed marked activity. There has been a building revival—one of the most noteworthy in our history—especially with regard to residences and public construction. As a consequence, the condition of the building material industries, especially the cement industry and the lumber industry, has been favorable.

Several other factors have contributed to comparatively optimistic indications. The forecast of good crops has been in most cases justified by recent reports, and finally, notwithstanding labor difficulties, there has been noted a development of confidence in numerous quarters in the course of recent months.

These then are the facts that have been gathered by many investigators in the various branches of industry and finance, and that have been set forth as the leading indications of the trend of business toward a better level. On the basis of these facts just what are we in all due caution justified in concluding?

In the first place, the financial situation which some time ago was causing no little concern has unquestionably cleared. In general, banking conditions in this country are excellent, and we have every

reason to believe that whatever sound business may be developed in the future can be properly financed. This clearly presents sound reason for optimism.

In the second place, the extreme price dislocations which up to very recently obtained in some branches of industry have, to an important extent, disappeared. We still face uncertainties concerning the future of the general price level, and until we know more about the final effects of our huge gold supply, the final effect of erratic European competition and the trend of specific wage levels, we cannot feel complete confidence with regard to general price movements, or indeed with regard to some special price movements. Nevertheless, we are justified in saying that the price situation offers hope for business improvement.

Other Improvements

In the third place, the volume of business, which, according to one of our best estimates, usually drops less than 20 per cent. below normal in business depressions, but which dropped to 25 per cent. in the recent depression, has now gradually increased until at present it is only 10 per cent. below normal. Here again we are upon substantial ground.

In the fourth place, there has occurred a considerable readjustment for the better in the great basic industry of America, namely, agriculture. It is true that the prices of some products are very far from satisfactory, and that because of the foreign situation there exists uncertainty as to the outlook for some of our farmers. The position of agriculture, as a

whole, however, has undoubtedly improved over that of a year ago.

And lastly, many maladjustments due to the war or the immediate post-armistice period have already been corrected. The large stocks of special types of goods that recently caused stagnation in the markets have been largely distributed or consumed, and the disproportionate development in our capital equipment is being steadily corrected.

In short, we have made much real progress in recent months, and in many ways we are in a position to handle a much larger volume of business.

Having recognized these facts, however, we are still left with the question: what sure indications have we of a further advance? In reply to this question, our attention has frequently been called to several striking developments in special branches of business, such as the very active stock market, the large turnover in the automobile industry and the extraordinary activity in building and other construction, which in turn has brought an abundance of business to the lumber, cement and other allied industries.

These activities have, without doubt, contributed very much to the present improved condition and for the most part they have represented sound business and financial development. As barometers of future business conditions, however, some of them ought not to be interpreted in just the same way as we have been accustomed to interpret similar activities when recovering from former depressions. While the present activities are caused in part by the same factors of progress that have stimulated

similar activities on previous occasions, in no small part they are caused by extraordinary and temporary factors that cannot with confidence be said to reflect general prosperity in proportion to the volume of activity. While all of the present forms of unusual activity cannot be interpreted in the same way, it is possible to indicate the difference between normal and abnormal activity by reference to one industry, namely construction.

Significance of Building Construction

During recent months we have been witnessing one of the most marked periods of activity in construction in our history. An activity of similar volume in normal times would be rightly interpreted as an indication of a considerable prosperity. It would probably mean the extension of the plants of industrial companies in response to, or in anticipation of, a marked advance in the demand for their products in excess of present capacity; preparation for increased transportation facilities to carry the increased volume of business; enlarged warehouse and other business capacity; and finally it would mean new residential construction made possible, in part at least, by new earnings or reasonably anticipated increases in earnings. In short, it would indicate for the most part an expansion relatively beyond our earlier development. The construction activities of today are no doubt in some part stimulated by these so-called normal factors of growth. To an important extent, however, they are a reflex from the unusual

conditions of *under*-construction left by the war and post-armistice period.

Just how much this activity is the result of municipal and other public work rendered imperative by the void left by cessation of normal building during the war, and just how much it is stimulated by the tax-exemption of municipal and state securities, it is impossible to say. It is also impossible to know just how much of it is stimulated by the foresight of business men who are preparing for enlarged business in the future, and just how much of it, on the other hand, represents nothing more than an extraordinary effort to make good the housing and other construction shortage left by the war. It is clear, however, that a sufficient number of unusual factors enter into the present building boom to caution us against attributing to it the usual significance in times of ordinary business recovery.

Before we can with full confidence interpret unusual activities as sure indications of returning prosperity, we must find such activities springing principally from the general demand for increased productive capacity and not largely from the urgent demand of absolute necessity caused by previously retarded growth in normal lines of industry. Of course, an extraordinary construction activity, whether it springs from destruction by war, flood, or fire, or from delayed industry due to war, may be a very wholesome sign. It helps to correct the maladjustment and to fill in the unfortunate gaps in our equipment. The activity, however, springs from a past loss—not from a new gain.

While, as I pointed out a moment ago, no two of these examples of extraordinary activity recently developed can be interpreted in the same way, it is to be noted that back of most of them are to be found factors of such extraordinary or temporary character that in part at least differentiate them from apparently similar activities in normal times.

Until we know more about the final effects of these extraordinary activities, I believe that we are justified in exercising due caution against reading into them a meaning that may not be there.

Improved Outlook

Properly interpreted, however, these examples of extraordinary activity do point to better conditions. In addition to these special factors there are numerous other indications of a very considerable activity that do suggest a readjustment more nearly to normal capital relations and in many cases to a more or less steady improvement in the volume of business. In looking over the whole field of domestic activity, therefore, I believe that we are justified in saying that the outlook for business is clearly for the better.

To recognize that fundamental conditions are right for a considerable further recovery, and to say that we are well on the way to something approaching a normal volume of business is not quite the same as saying that we are assured of a speedy return to one of our prewar periods of prosperity. It is this second question, I take it, that is of most interest to all of us. Into it, however, enter many special fac-

tors, the most important of which are the outlook for the labor situation and the condition of affairs across the water.

The immediate effect of the coal, railroad, and other strikes undoubtedly has been to present serious obstacles to current business development and the most serious consequences of them are perhaps yet to be met. It would be a mistake to underestimate the evils of these difficulties. However, the aspect of the labor problem that appeals to me as of greatest significance, is the question as to how much more labor difficulty we must face before we can finally settle down to complete recovery.

The present labor difficulties are in large part the result of the effort of industry to readjust itself in the face of the many complicating factors arising from the war, the post-armistice boom and the depression. In these difficulties we are not alone. Since the war such problems have had to be met in every great industrial country. Indeed industrial unrest has caused such great concern in some countries as seriously to raise the question in the minds of industrial leaders and bankers whether those countries could hope in the future to compete in world trade as effectively as before the war. In this respect England has probably suffered more than any other country and there appears no doubt that much of her present difficulty is quite as much due to her recent unfortunate labor problem as to other extraordinary conditions left by the war.

But England appears for the present at least to have solved part of her most serious labor difficulties.

At very great cost, to be sure, both to English industries and to the laborers themselves, the latter at last have learned that the industrial efficiency necessary to England's recovery of her previous position in world trade cannot be maintained in the face of constant labor difficulties.

In this connection the question arises whether we shall also have to go through such a costly series of labor difficulties before we can settle down to real recovery. There is much evidence that many laborers do not yet understand the conditions necessary to a return to a more nearly normal business development.

I would not wish to suggest that complete industrial peace is essential to our prosperity. We have had strikes and lockouts ever since this country became a great industrial nation. At times we have had very serious labor difficulties and yet for the most part we have prospered. A certain amount of labor controversy and readjustment is apparently inevitable. It may be considered perhaps as the growing pains of the industrial world.

Special Wage Problems

But these more or less chronic and for the most part relatively less important difficulties are not what I have in mind. I refer to the extraordinary problems arising from the belief of certain laboring groups that they can permanently exact from the community something approaching the unusual wages rendered possible by the confusion of wartime and the immediate post-armistice conditions.

We now know that the feverish activity of the post-armistice period was abnormal. It brought huge profits to some enterprises and speculators and extraordinary wages to many laborers. These wages and profits were possible largely because of the crying needs of European countries following the war, and because of the confusion in this country during the same period. But in many ways this activity was not a healthy condition for business and it is to be doubted whether in the main it brought permanent benefit either to the employers or to the employees. In any case, that time is gone and there is no chance of its returning. As a permanent policy it is impossible to pay such extraordinary wages unless labor efficiency is to be increased correspondingly.

We have had some important wage readjustments, but there must be further readjustments before the wages of some can bear a more nearly normal relation to the quantity and quality of the service rendered. Wage earners cannot permanently receive more than they produce and all temporarily successful attempts to gain excessive wages serve only to deprive other workers in the community (through the means of high prices) of part of their justly earned income.

But the present labor problem is by no means one-sided. It is equally disastrous to the community for employers to take advantage of the slack business periods to reduce the wages and working conditions below those justified by the condition of the industry. There is much readjustment still to be made in the labor situation and I think that we must admit that the outlook for our domestic business prosperity

will depend in no small degree upon the breadth of view with which both employers and employes face the coming and necessary readjustments.

The labor situation, however, is right at our door and we have the dire significance of its continuation borne in upon us daily. Our chances of giving this question the earnest attention which it deserves are much greater than the chances that we shall give adequate attention to other great questions which, although no less serious in their bearings upon our future trade, appear more remote and less direct. I shall turn, therefore, for a moment to some of these indirect factors, namely, those arising in connection with the European situation.

Need of World-Wide Economic Policy

Gentlemen, the time has passed when any one looking to the future of the business of America can ignore the rest of the world. I know that there are those who advocate restricting our attention very largely to our own affairs, and who believe that the future prosperity of America is largely locked up in our own domestic trade. The home market argument, advanced one hundred years ago, may have had much to support it at that time. Even then, however, it was the subject of much debate. But conditions have changed since the year 1820.

For many years before the war the whole trend of American business had been away from the development of a self-sufficient state. The developments of the war and the changed economic and financial

status of other great industrial and capitalistic nations, have added tremendous impetus to a movement that has extended our lines of economic activity farther and farther into other countries. To my mind this movement has now been carried so far as to leave the importance of a world-wide economic policy no longer a debatable question.

But when I mention our dependence upon the rest of the world I do not refer only to the volume of our export trade. To be sure, the volume of that trade is a matter of great concern to us. It must increase; and I hope we are going to take the steps that will cause it to increase. Any view of our foreign economic relations that would attempt to appraise their importance solely in terms of the volume of that trade, however, must be singularly lacking in a comprehension of the many important foreign factors entering into our own business welfare.

As an outgrowth of the war we have been lifted into a dominating position in the world's capital relations. This change, in itself, is bound to bring a corresponding change in many of the trade currents that follow capital movements. The change has thrown upon us a responsibility that we cannot evade whether we wish to or not. Moreover, this change must powerfully react upon our domestic business conditions and upon our important economic policies. Wherever we turn in our examination of the elements that make for business stability or instability in our own domestic affairs, whether it be that of the capital supply, the gold or currency questions, the future of price levels, or the future of trade restrictions at home

or in other countries, we find new economic conditions that compel us to consider the bearing of movements abroad.

In fine, whether we view the question from the point of view of the increase of foreign influence upon our own affairs, or the growth of our own influence upon foreign affairs, we are confronted with the fact that in the future we must consult world-wide activities far more than ever before in our history. Let us look for a moment, therefore, at the situation abroad.

We have had the greatest war in all history. Great and terrible as have been the effects of some of our previous wars, in the loss of productive workers, in the destruction of capital and in the diminution of the buying power of the world, they are dwarfed into comparative unimportance by the effects of the Great War of 1914-18.

Four years have passed since the Armistice, and yet we still find in a widely extended area a condition of affairs that might suggest to a stranger that the war had only just come to an end. Many millions of people living in the territory of formerly powerful states are reduced to a pitifully low state of economic well-being, and hundreds of millions have had their buying power drastically reduced. The loss of these markets has directly or indirectly impeded the recovery of many of the nations that in the past have purchased American products.

If the recovery of world trade depended only upon the repairing of physical losses due to the war, we might properly expect a much more rapid recovery in the near future. The fact is, however, that we face

an entirely new problem. The war has been followed by a series of so-called treaties of peace, the carrying out of which involves greater interference with economic currents than any previous act in the history of industry.

Notwithstanding the lapse of more than three years since the signing of these treaties we are only just appreciating the full significance of the barriers that have been erected against the normal trend of the world's currents of trade. Every passing month, however, brings to light new evidences of the obstructing character of the economic and political changes left by the war and dictated by the treaties of peace.

It is true that a considerable readjustment has taken place in some of the belligerent nations of Europe since the close of the war as well as in neutral European countries and in other parts of the world since the drastic business decline in the beginning of 1920. Much rehabilitation has taken place in France, and important capital readjustment has occurred in several other countries. Excessive surplus stocks of goods in many parts of the world have been liquidated and absorbed; private financial liquidation has occurred, and the public finances of some states have been put upon a sounder basis. After all of the evidence of improvement has been enumerated, however, the fact still remains that there exist lamentable gaps in the readjustment necessary to world trade recovery.

In looking to basic conditions that affect the future of American business, therefore, we are con-

fronted with two sets of facts. On the one hand, we find an abundance of evidence that very substantial improvement over the worst period of the depression has taken place at home. In addition to this we find to a somewhat less degree, but still to a degree that offers much basis for encouragement, a readjustment in commercial and financial conditions in many other countries. On the other hand, we find a condition of affairs in certain European countries that presents definite obstacles to anything like the full recovery of world trade. In view of these two sets of conditions, what may be said to be the outlook for American business?

The Future of American Business

I believe that there are open to American businessmen two courses. By relying upon indications of improvement such as we already have had, by developing confidence and faith in the future and by bringing about certain additional readjustments (of a somewhat difficult but possible character), I believe that we may, within ourselves, and by the help of what foreign trade must come to us in any circumstances, advance business development in this country and attain a moderate prosperity.

If, however, we content ourselves with a modest recovery we shall take a position which will constitute a signal retreat from the spirit of enterprise that has animated this country throughout a hundred years; and that has made of America a great progressive nation. We Americans, up to the last few months, have never been satisfied with mediocre results. We

have been willing to take great risks; and, if necessary to suffer great losses; but we have been determined to enter upon great undertakings and to hope for great accomplishments.

The second course which I believe to be open to American business is a return to something approaching the old opportunities, the old rate of progress and a real prosperity. Never before has there been a time in the history of America when she occupied such a predominant position in world finance, never before has there been a time when other countries so urgently needed our products.

But in order to grasp the opportunities before us the rest of the world must be started upon a normal course. If we Americans are to take advantage of our new position in world affairs and if we are to have conditions in which we can make the most of our new international capital position, it is essential that we play our part in the readjustment of world conditions.

I believe that the outlook for American business, therefore, depends largely upon whether American business men are going to be contented in playing a relatively smaller role than before the war, to restrict their international economic relations and to accept within a restricted market modest profits, or whether they are going to broaden their views to the new vision that is demanded by present problems and opportunities, and to assume their part in the great work of readjustment that is yet to be done.

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